

# Vanguard economic and market outlook for 2022: Global summary

The global outlook summary highlights the top-level findings of Vanguard's full economic and market outlook, to be distributed in mid-December.

## **The global economy in 2022: Striking a better balance**

Our outlook for 2021 focused on the impact of COVID-19 health outcomes on economic and financial conditions. Our view was that economic growth would prove unusually strong, with the prospects for an "inflation scare" as growth picked up. As we come to the end of 2021, parts of the economy and markets are out of balance. Labor demand exceeds supply, financial conditions are exceptionally strong even when compared to improved fundamentals, and policy accommodation remains extraordinary.

Although health outcomes will remain important in 2022, the outlook for macro-economic policy will be more crucial as support and stimulus packages enacted to combat the pandemic-driven downturn are gradually removed into 2022. The removal of policy support poses a new challenge for policymakers and a new risk to financial markets.

The global economic recovery is likely to continue in 2022, although we expect the low-hanging fruit of rebounding activity to give way to slower growth whether supply-chain challenges ease or not. In both the United States and the euro area, we expect growth to normalize lower to 4%. In the U.K., we expect growth of about 5.5%, and in China we expect growth to fall to about 5% given the real estate slowdown.

More importantly, labor markets will continue to tighten in 2022 given robust labor demand, even as growth decelerates. We anticipate several major economies, led by the U.S., to quickly approach full employment even with a modest pickup in labor force participation. Wage growth should remain robust, and wage inflation is likely to become more influential than headline inflation for the direction of interest rates in 2022.

## **Global inflation: Lower but stickier**

Inflation has continued to trend higher across most economies, driven by a combination of higher demand as pandemic restrictions were lifted and lower supply from global labor and input shortages. Although a return to 1970s-style inflation is not in the cards, we anticipate that supply/demand frictions will persist well into 2022 and keep inflation elevated across developed and emerging markets. That said, it is highly likely that inflation rates at the end of 2022 will be lower than at the beginning of the year given the unusual run-up in certain goods prices.

Although inflation should cool in 2022, its composition should be stickier. More persistent wage-based inflation should remain elevated given our employment outlook and will be the critical determinant in central banks' adjustment of policy.

## Policy takes center stage: The risk of a misstep increases

The global policy response to COVID-19 was impressive and effective. Moving into 2022, how will policymakers navigate an exit from exceptionally accommodative policy? The bounds of appropriate policy expanded during the pandemic, but it's possible that not all these policies will be unwound as conditions normalize. On the fiscal side, government officials may need to trade off between higher spending—due to pandemic-driven policies—and more balanced budgets to ensure debt sustainability.

Central bankers will have to strike a delicate balance between keeping a lid on inflation expectations, given negative supply-side shocks, and supporting a return to pre-COVID employment levels. In the United States, that balance should involve the Federal Reserve raising interest rates in 2022 to ensure that elevated wage inflation does not translate into more permanent core inflation. At present, we see the negative risks of too-easy policy accommodation outweighing the risks of raising short-term rates. Given conditions in the labor and financial markets, some are likely underestimating how high the Fed may ultimately need to raise rates this cycle.

## The bond market: Rising rates won't upend markets

Despite modest increases during 2021, government bond yields remain below pre-COVID levels. The prospect of rising inflation and policy normalization means that the short-term policy rates targeted by the Fed, the European Central Bank, and other developed-market policymakers are likely to rise over the coming years. Credit spreads remain generally very tight. In our outlook, rising rates are unlikely to produce negative total returns, given our inflation outlook and given the secular forces that should keep long-term rates low.

## Global equities: A decade unlike the last

A backdrop of low bond yields, reduced policy support, and stretched valuations in some markets offers a challenging environment despite solid fundamentals. Our Vanguard Capital Markets Model<sup>®</sup> fair-value stock projections, which explicitly incorporate such varied effects, continue to reveal a global equity market that is drifting close to overvalued territory, primarily because of U.S. stock prices. Our outlook calls not for a lost decade for U.S. stocks, as some fear, but for a lower-return one.

Specifically, we are projecting the lowest 10-year annualized return projections for global equities since the early 2000s. We expect the lowest ones in the U.S. (2.3%–4.3% per year), with more attractive expected returns for non-U.S. developed markets (5.3%–7.3%) and, to a lesser degree, emerging markets (4.2%–6.2%). The outlook for the global equity risk premium is still positive but lower than last year's, with total returns expected in the range of 2 to 4 percentage points over bond returns.

For U.S. investors, this modest return outlook belies opportunities for those investing broadly outside their home market. Recent outperformance has only strengthened our conviction in non-U.S. equities, which have more attractive valuations than U.S. equities. Although emerging-market equities are above our estimate of fair value, we still expect higher returns than the U.S. and diversification benefits for investors. Within U.S. markets, we think value stocks are still more attractive than growth stocks, despite value's outperformance over the last 12 months.

**IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model<sup>®</sup> (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modeled asset class. Simulations as of September 30, 2021. Results from the model may vary with each use and over time.**

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and

empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

## Vanguard global economics team

Joseph Davis, Ph.D., Global Chief Economist

### Americas

Roger A. Aliaga-Díaz, Ph.D.,  
Chief Economist, Americas

Joshua M. Hirt, CFA

Andrew J. Patterson, CFA

Asawari Sathe, M.Sc.

Adam J. Schickling, CFA

Maximilian Wieland

David Diwik, M.Sc.

Amina Enkhbold, Ph.D.

### Asia-Pacific

Qian Wang, Ph.D.,  
Chief Economist, Asia-Pacific

Alexis Gray, M.Sc.

Beatrice Yeo, CFA

### Europe

Peter Westaway, Ph.D.,  
Chief Economist, Europe

Shaan Raithatha, CFA

Roxane Spitznagel, M.Sc.

Griffin Tory, M.Phil.

### Capital Markets Model Research Team

Qian Wang, Ph.D., Global Head of VCMM

Kevin DiCiurcio, CFA

Daniel Wu, Ph.D.

Ian Kresnak, CFA

Vytautas Maciulis, CFA

Olga Lepigina, MBA

Akeel Marley, MBA

Edoardo Cilla, M.Sc.

Lukas Brandl-Cheng, M.Sc.

Alex Qu

## Connect with Vanguard®

*All investing is subject to risk, including the possible loss of the money you invest. Past performance is no guarantee of future returns. Diversification does not ensure a profit or protect against a loss. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.*

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets.



© 2021 The Vanguard Group, Inc.  
All rights reserved. Vanguard Marketing  
Corporation, Distributor.

ISGVEMOG 122021

## Important Information

VIGM, S.A. de C.V. Asesor en Inversiones Independiente ("Vanguard Mexico") registration number: 30119-001-(14831)-19/09/2018. The registration of Vanguard Mexico before the Comisión Nacional Bancaria y de Valores ("CNBV") as an Asesor en Inversiones Independiente is not a certification of Vanguard Mexico's compliance with regulation applicable to Advisory Investment Services (Servicios de Inversión Asesorados) nor a certification on the accuracy of the information provided herein. The supervision scope of the CNBV is limited to Advisory Investment Services only and not all services provided by Vanguard Mexico.

This material is solely for informational purposes and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, nor shall any such securities be offered or sold to any person, in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Reliance upon information in this material is at the sole discretion of the recipient.

Securities information provided in this document must be reviewed together with the offering information of each of the securities which may be found on Vanguard's website: <https://www.vanguardmexico.com/institutional/products/en/list/overview> or [www.vanguard.com](http://www.vanguard.com)

Vanguard Mexico may recommend products of The Vanguard Group Inc. and its affiliates and such affiliates and their clients may maintain positions in the securities recommended by Vanguard Mexico.

ETFs can be bought and sold only through a broker and cannot be redeemed with the issuing fund other than in very large aggregations. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing. The market price of ETF Shares may be more or less than net asset value.

All investments are subject to risk, including the possible loss of the money you invest. Investments in bond funds are subject to interest rate, credit, and inflation risk. Governmental backing of securities applies only to the underlying securities and does not prevent share-price fluctuations. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Stocks of companies are subject to national and regional political and economic risks and to the risk of currency fluctuations, these risks are especially high in emerging markets. Changes in exchange rates may have an adverse effect on the value, price or income of a fund.

The information contained in this material derived from third-party sources is deemed reliable, however Vanguard Mexico and The Vanguard Group Inc. are not responsible and do not guarantee the completeness or accuracy of such information.

This document should not be considered as an investment recommendation, a recommendation can only be provided by Vanguard Mexico upon completion of the relevant profiling and legal processes.

This document is for educational purposes only and does not take into consideration your background and specific circumstances nor any other investment profiling circumstances that could be material for taking an investment decision. We recommend getting professional advice based on your individual circumstances before taking an investment decision.

These materials are intended for institutional and sophisticated investors use only and not for public distribution.

Materials are provided only for the recipient's exclusive use and shall not be distributed to any other individual or entity. Broker-dealers, advisers, and other intermediaries must determine whether their clients are eligible for investment in the products discussed herein.

The information contained herein does not constitute an offer or solicitation and may not be treated as such in any jurisdiction where such an offer or solicitation is against the law, or to anyone for whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so.

THESE MATERIALS ARE PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF RECIPIENT AND CONTAIN HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR WRITTEN CONSENT. THE CONTENTS OF THESE MATERIALS SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THESE MATERIALS TO ACQUIRE THE INTERESTS IN THE SECURITIES DESCRIBED HEREIN UNDER THE LAWS OF BRAZIL. SUCH SECURITIES HAVE NOT BEEN REGISTERED IN BRAZIL AND NONE OF THE INTERESTS IN SUCH SECURITIES MAY BE OFFERED, SOLD, OR DELIVERED, DIRECTLY OR INDIRECTLY, IN BRAZIL OR TO ANY RESIDENT OF BRAZIL EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF BRAZIL.

PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF THE RECIPIENT. THE CONTENTS OF THIS DOCUMENT SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THIS DOCUMENT TO INVEST IN SECURITIES DESCRIBED HEREIN.

This document is provided at the request of and for the exclusive use of the recipient and does not constitute, and is not intended to constitute, a public offer in the Republic of Colombia, or an unlawful promotion of financial/capital market products. The offer of the financial products described herein is addressed to fewer than one hundred specifically identified investors. The financial products described herein may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555/2010 and other applicable rules and regulations related to the promotion of foreign financial/capital market products in Colombia.

The financial products described herein are not and will not be registered before the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores - RNVE) maintained by the Colombian Financial Superintendency, or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regard to the financial products described here in will not constitute a public offering of securities in Colombia.

The financial products described herein may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations; provided that, any authorized person of a firm authorized to offer foreign securities in Colombia must abide by the terms of Decree 2555/2010 to offer such products privately to its Colombian clients.

The distribution of this material and the offering of securities may be restricted in certain jurisdictions. The information contained in this material is for general guidance only, and it is the responsibility of any person or persons in possession of this material and wishing to make application for securities to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for securities should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This offer conforms to General Rule No. 336 of the Chilean Financial Market Commission (Comisión para el Mercado Financiero). The offer deals with securities not registered under Securities Market Law, nor in the Securities Registry nor in the Foreign Securities Registry of the Chilean Financial Market Commission, and therefore such securities are not subject to its oversight. Since such securities are not registered in Chile, the issuer is not obligated to provide public information in Chile regarding the securities. The securities shall not be subject to public offering unless they are duly registered in the corresponding Securities Registry in Chile. The issuer of the securities is not registered in the Registries maintained by the Chilean Financial Market Commission, therefore it is not subject to the supervision of the Chilean Financial Market Commission or the obligations of continuous information.

Esta oferta se acoge a la norma de carácter general No. 336 de la Comisión para el Mercado Financiero. La oferta versa sobre valores no inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores extranjeros que lleva la Comisión para el Mercado Financiero, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de esos valores. Los valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. El emisor de los valores no se encuentra inscrito en los Registros que mantiene la Comisión para el Mercado Financiero, por lo que no se encuentra sometido a la fiscalización de la Comisión para el Mercado financiero ni a las obligaciones de información continua.

The securities described herein have not been registered under the Peruvian Securities Market Law (Decreto Supremo No 093-2002-EF) or before the Superintendencia del Mercado de Valores (the "SMV"). There will be no public offering of the securities in Peru and the securities may only be offered or sold to institutional investors (as defined in Appendix I of the Institutional Investors Market Regulation) in Peru by means of a private placement. The securities offered and sold in Peru may not be sold or transferred to any person other than an institutional investor unless such securities have been registered with the Registro Público del Mercado de Valores kept by the SMV. The SMV has not reviewed the information provided to the investor. This material is for the exclusive use of institutional investors in Peru and is not for public distribution.

The financial products described herein may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the financial products described herein in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Vanguard does not intend, and is not licensed or registered, to conduct business in, from or within the Cayman Islands, and the interests in the financial products described herein shall not be offered to members of the public in the Cayman Islands.

The financial products described herein have not been and will not be registered with the Securities Commission of The Bahamas. The financial products described herein are offered to persons who are non-resident or otherwise deemed non-resident for Bahamian Exchange Control purposes. The financial products described herein are not intended for persons (natural persons or legal entities) for which an offer or purchase would contravene the laws of their state (on account of nationality or domicile/registered office of the person concerned or for other reasons). Further, the offer constitutes an exempt distribution for the purposes of the Securities Industry Act, 2011 and the Securities Industry Regulations, 2012 of the Commonwealth of The Bahamas.

This document is not, and is not intended as, a public offer or advertisement of, or solicitation in respect of, securities, investments, or other investment business in the British Virgin Islands ("BVI"), and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments, or services constituting investment business in BVI. Neither the securities mentioned in this document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of BVI or any department thereof.

This document is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The funds are only available to, and any invitation or offer to subscribe, purchase, or otherwise acquire such funds will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI or persons who are not considered to be "members of the public" under the Securities and Investment Business Act, 2010 ("SIBA").

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

This document does not constitute an offer or solicitation to invest in the securities mentioned herein. It is directed at professional / sophisticated investors in the United States for their use and information. The financial products describe herein are only available for investment by non-U.S. investors, and this document should not be given to a retail investor in the United States. Any entity responsible for forwarding this material, which is produced by VIGM, S.A. de C.V., Asesor en Inversiones Independiente in Mexico, to other parties takes responsibility for ensuring compliance with applicable securities laws in connection with its distribution.

**Connect with Vanguard®** > [vanguardmexico.com](http://vanguardmexico.com)

**Vanguard®**

© 2021 The Vanguard Group, Inc.  
All rights reserved.

ISGFBY 062021